

London Borough of Hammersmith & Fulham

Report to: Pensions Board

Date: 13/01/2019

Subject: Pension Fund's Proposed Responsible Investment Policy and Update to the Environmental, Social and Governance (ESG) Policy

Report of: Phil Triggs, Matt Hopson, Tim Mpofu

Summary

1.1 This paper provides the Pensions Board with the following:

- a. A newly proposed initial draft of the Pension Fund's Responsible Investment Policy.
- b. A suggested update of the Pension Fund's Environmental, Social and Governance (ESG) Policy. This suggested section is currently included (necessary by Regulation) as a separate section within the Pension Fund's Investment Strategy Statement.

Recommendations

1. The Pensions Board is requested to note and comment on the report with a view to enabling officers to formalise and finalise the ESG related policies and statements.
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Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none">• Building shared prosperity	Being a responsible investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive contribution to the long-term sustainability of the global environment, enabling the Pension Fund to enhance its investment return.

Financial Impact

- No direct financial impact.

Legal Implications

- None
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Background Papers Used in Preparing This Report

None

PROPOSED UPDATE TO THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY WITHIN THE INVESTMENT STRATEGY STATEMENT

1. Introduction

- 1.1. The London Borough of Hammersmith and Fulham (LBHF) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of capital. Such a responsibility extends to making a positive contribution to the long-term sustainability of the global environment.
- 1.2. The Pension Fund recognises that managing environmental, social and corporate governance (ESG) issues is consistent with its overall fiduciary duty as their outcome may be financially material to the financial state of the Pension Fund. This presents a significant responsibility for the Pension Sub-Committee and the ESG approach then becomes integral to its overall investment strategy.
- 1.3. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability. The Pension Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by 2030. This commitment means that the Pension Fund must integrate ESG factors into its overall investment strategy.
- 1.4. Members of the Pension Fund trust the Pensions Sub-Committee to act with the utmost fiduciary duty in their best interests and ensure that their benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Pensions Sub-Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.
- 1.5. The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below:

Suggested Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.
- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool, the London CIV) and other member

groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- The Pension Fund wants to **make members proud** of the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

Policy Implementation: investing to build a better future

- 1.6. Over recent years, the Pension Fund has made great strides in considering the impact of climate change within its investments. This has influenced the choice of investment and how performance is monitored.
 - The Pension Fund has committed to investing its entire passive equities holdings into low carbon index-tracker funds. This represents estimated carbon savings of over 35,000 tonnes per annum.
 - The Pension Fund maintains a 7.5% allocation to infrastructure investments, the majority of which is currently invested in renewable energy assets. This includes wind farms, solar plants and energy storage facilities.
- 1.7. The Pension Fund will continue to assess its investment opportunities in sustainable and low carbon assets. We aim for our pension fund to be carbon neutral by the year 2030. As such, this will be reflected in the strategic asset allocation and the overall investment strategy.
- 1.8. In addition to carbon neutrality, the Pension Fund will continually assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property and social impact opportunities.

Policy Implementation: engaging with investment community

- 1.9. Institutional investors have the power to influence and change behaviour globally. The LBHF Pension Fund believes that there is significant value in being able to engage with the companies we invest in and be part of the transition to a global, low carbon economy.
- 1.10. The measurement of ESG performance is still developing and benefitting from significant improvements. There are several benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.
 - The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.
- 1.11. Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

Policy Implementation: collaboration with other stakeholders

- 1.12. The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The LBHF fund is committed to playing a key role as part of the LGPS London CIV pool.
- 1.13. As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its money is invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS pension funds to find common solutions for ESG issues.
- 1.14. As more funds are onboarded into the London CIV, the Pension Fund expects to increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the fund's strategic objectives and those of the 31 other London Local Authority's Pension Funds.
- 1.15. The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance the LAPPF's governance policies. In exceptional cases, the investment manager will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

Policy Implementation: making our members proud

- 1.16. LBHF's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented on the Local Pension Board.

- 1.17. The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.
- 1.18. The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.
- 1.19. Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the fund's administrative function and the fund's assessment of its many risks.
- 1.20. A proposed redraft to the fund's Investment Strategy Statement incorporating the above principles will be brought to the 11 February 2020 meeting for consideration by the Sub-Committee

PROPOSED RESPONSIBLE INVESTMENT POLICY

2. Purpose of the Responsible Investment Policy

- 2.1. As part of the Investment Strategy Statement, the Regulations require administering authorities to outline how they plan to meet each of the following objectives which are aimed at improving the investment and governance of the Fund:
 - a. a requirement to invest fund money in a wide variety of investments;
 - b. the authority's assessment of the suitability of particular investments and types of investments;
 - c. the authority's approach to risk, including the ways in which risks are to be assessed and managed;
 - d. the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - e. the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - f. the authority's policy on the exercise of the rights (including voting rights) attaching to investments.
- 2.2. With regard to responsible investment, it is proposed that the Sub-Committee approve its own Responsible Investment policy document.
- 2.3. The purpose of this policy document is to lay out the fund's approach to objective (e) above.
- 2.4. The proposed Responsible Investment policy is set out in Appendix 1.

3. Reasons for Decision

- 3.1. The update to the ESG Policy is to be included as part of the update to the Investment Strategy Statement, a full redraft of which will be brought to the next Sub-Committee meeting.
- 3.2. The Responsible Investment Statement will be a stand-alone policy document which aims to make clear the Pension Fund's investment values and will be subject to regular ongoing review.

4. Equality Implications

- 4.1. N/A

5. Risk Management Implications

- 5.1. Managing the material risks to the Pension Fund's investment performance posed by environmental, social and governance factors.

6. Other Implications

- 6.1. N/A

7. Consultation

- 7.1. N/A

List of Appendices:

Appendix 1: Responsible Investment Policy